

The Personal and Fiscal Impact of the Social Security 2100 Act

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Social Security—America’s largest entitlement program—is on track to run out of funds for scheduled benefits in 2035. The impending shortfall is severe, representing 29 percent of payroll taxes or 23 percent of benefit payments that year.¹ The sooner Congress addresses Social Security’s financial shortfall with prudent reforms, the better the outcome will be for workers and retirees alike.

Representative Larson (D–CT) recently introduced the Social Security 2100 Act (H.R. 1902), which seeks to make the program solvent over the next 75 years. There are many problems with this bill, however, as this solvency comes at the cost of broadening Social Security’s size and scope, raising taxes on all workers, and leaving them with less money to meet their daily needs. Workers will have, for instance, less money to buy a home, pay for childcare and college, or save for retirement.

The Social Security 2100 Act would raise payroll taxes by almost 20 percent for most workers by increasing the current 12.4 percent tax to 14.8 percent by 2043. Once fully phased in, the higher payroll taxes would require an average worker with an annual salary of \$50,000 to pay an extra \$1,200 per year. That is equivalent to a month’s rent, three months’ worth of groceries, or an entire year’s worth of gas for a typical worker. In total, this worker’s annual Social Security tax bill would be \$7,400. Including Medicare taxes would bring an average earner’s payroll tax bill to \$8,400, which does not include federal and state income taxes.

The Social Security 2100 Act would increase benefits for all Social Security recipients, including current retirees who would receive larger cost-of-living adjustments (COLA) over time. As a result of a higher minimum benefit, an increase in the replacement-rate formula, and a larger COLA, the average individual who retires in 2020 or later would receive \$71,000 more in Social Security benefits throughout his lifetime.

All income groups would receive higher benefits, but the highest-income earners would receive some of the largest benefit increases. A worker with average earnings of \$30,000 would receive \$333 more per year, while someone with average earnings of \$1,000,000 would receive \$12,333 more per year.² Taxpayers cannot afford benefit increases for everyone, particularly for middle-income and higher-income earners. It is these types of unnecessary expansions that have caused Social Security to consume 24 percent of the entire U.S. budget today.³ The Social Security 2100 Act would only exacerbate Social Security’s drain on the budget by increasing its costs, as a percentage of gross domestic product, by 39 percent in the long run (in the 75th year).⁴

Raising taxes is not the only way to make Social Security solvent.⁵ A separate bill introduced by now-retired Representative Sam Johnson (R–TX) took a very different approach to making Social Security solvent in the long run.⁶ The Social Security Reform Act of 2016 would have increased benefits for individuals who need them most,

1. Social Security Administration, *The 2019 Annual Report of the Board of Trustees of The Federal Old-Age And Survivors Insurance and Federal Disability Insurance Trust Funds*, April 22, 2019, <https://www.ssa.gov/oact/TR/2019/tr2019.pdf> (accessed April 25, 2019).

2. These sample benefit increases are based in current, 2019, dollars, and estimated by applying the new benefit formula to a worker with average indexed earnings of \$30,000 and \$1,000,000 who retires in 2020. Actual future benefits would also reflect higher inflation-indexed levels not incorporated in this particular example.

3. Congressional Budget Office, “Budget and Economic Data: 10-Year Budget Projections,” January 2019, <https://www.cbo.gov/about/products/budget-economic-data#3> (accessed April 25, 2019).

4. The 39 percent increase in costs is the result of the Social Security Administration’s projected increase in Social Security’s expenditures as a percentage of GDP from 4.93 percent in 2092 under current law to 6.44 percent under the Larson proposal. Social Security Administration, Office of the Chief Actuary, letter to the Honorable John Larson, Richard Blumenthal, and Chris Van Hollen, January 30, 2019, https://www.ssa.gov/OACT/solvency/LarsonBlumenthalVanHollen_20190130.pdf (accessed April 25, 2019).

5. Committee for a Responsible Federal Budget, “Johnson and Larson Show Two Ways to Fix Social Security,” April 6, 2017, <https://www.crfb.org/blogs/johnson-and-larson-show-two-ways-fix-social-security> (accessed April 15, 2019).

6. Social Security Administration, Table A. “Estimates Long-Range OASDI Financial Effects of H.R. 6489, the ‘Social Security Reform Act of 2016,’ Introduced by Chairman Sam Johnson,” letter from the Chief Actuary to Representative Sam Johnson, December 8, 2016, https://www.ssa.gov/OACT/solvency/SJohnson_20161208.pdf (accessed April 15, 2019).

reduced benefits for middle-income and upper-income earners, and modernized the program through increases in the eligibility age and the use of more accurate inflation adjustments.

To preserve and improve Social Security, focusing on its social welfare function, policymakers should reduce benefits for wealthier individuals who need them the least, increase benefits for those who need them the most, and modernize the program. Social Security already takes too large a portion out of workers' paychecks. Social Security has been broken for decades. Making it bigger—by raising taxes and benefits across the board—will not make it better. Addressing Social Security's shortcomings requires a more targeted approach that will preserve and improve the program for individuals who need it most, without increasing Social Security's already high tax burden on working Americans.

History of Social Security

Social Security was predominantly an outgrowth of the Great Depression, during which the unemployment rate reached 34 percent, per capita incomes fell by 19 percent, and millions of older workers' life savings were wiped out.⁷ This crisis led policymakers to consider a program that would protect individuals who are too old to work from living in poverty. As a social safety net, Social Security was not designed to be the primary source of individuals' retirement incomes, nor was it intended to take a significant portion of individuals' paychecks. When it was created in the 1930s, Social Security's eligibility age of 65 was higher than the average life expectancy.⁸

In fact, Social Security started out as only a 2 percent payroll tax, and its designers promised that it would never take more than 6 percent of workers' paychecks. Yet today, more than 40 percent of older Americans rely on Social Security for at least half of their income, and the program consumes 12.4 percent of workers' pay.⁹ So how did the program veer so far from its intended course? In short, the program has been providing increasing benefit amounts, to a broader population, over significantly longer lifespans.

Due to legislation that increased benefit levels, indexed earnings to wage growth, and provided cost-of-living adjustments, the average inflation-adjusted Social Security benefit grew from \$5,800 per year in 1960, to \$11,700 in 1985, and \$17,500 in 2018.¹⁰ This growth in benefits is out of step with the program's stated purpose of "preventing dependency in old age and thereby reducing reliance on needs-tested assistance."¹¹

In addition to larger Social Security benefits, more individuals became eligible for benefits. The original program covered only about 60 percent of workers, but by the mid-1950s, Congress had expanded coverage to about 90 percent of the workforce, and today, about 93 percent of workers are included in Social Security.¹² The addition of new workers added to Social Security's financial shortfall because Social Security operates on a pay-as-you-go basis, and Congress did not collect the necessary taxes to ensure that new obligations were fully supported by past contributions.

Perhaps the largest reason for Social Security's growth and financial shortfalls is that increasing life expectancies means that individuals receive benefits for many more years than in the past. Life expectancy at birth has increased 17 years since Social Security began in 1935.¹³ Yet, Congress has only increased Social Security's normal retirement age by two years, and it actually reduced the earliest eligibility age by three years, to age 62. Whereas in 1940, the average worker was not expected to live long enough to collect Social Security, and those who did collected it for an

7. Martha A. McSteen, Acting Commissioner of Social Security, "Fifty Years of Social Security," Social Security Administration, August 1985, <https://www.ssa.gov/history/50mm2.html> (accessed April 5, 2019).

8. Centers for Disease Control and Prevention, "United States Life Tables, 1998," *National Vital Statistics Reports*, Vol. 48, No. 18, February 7, 2001, Table 11, https://www.cdc.gov/nchs/data/nvsr/nvsr48/nvsr48_18.pdf (accessed March 28, 2019).

9. Adam Bee and Joshua Mitchell, "Do Older Americans Have More Income Than We Think?" U.S. Census Bureau, Social, Economic, and Housing Statistics Division *Working Paper* No. 2017-39, July 2017, <https://www.census.gov/content/dam/Census/library/working-papers/2017/demo/SEHSD-WP2017-39.pdf> (accessed March 23, 2019).

10. Social Security Administration, "Annual Statistical Supplement 2018," Table 5.B8—Number and average monthly benefit with and without reduction for early retirement, by sex, December 1956–2017, selected years, <https://www.ssa.gov/policy/docs/statcomps/supplement/2018/index.html> (accessed April 6, 2019). Historical data was inflation adjusted to 2018 dollars using the PCE index: Federal Reserve Bank of St. Louis, "Personal Consumption Expenditures: Chain Type Price Index," <https://fred.stlouisfed.org/series/DPCERG3A086NBEA> (accessed April 6, 2019).

11. McSteen, "Fifty Years of Social Security."

12. Ibid., and Social Security Administration, "Fact Sheet on the Old Age, Survivors, and Disability Insurance Program," December 2018, <https://www.ssa.gov/OACT/FACTS/> (accessed April 6, 2019).

13. Life expectancy at birth for men in 1935 was 59.4 years compared to 76.4 in 2019; for women it was 63.3 years in 1935 compared to 80.7 years in 2019. At age 65, life expectancy for men was 11.9 years in 1935 compared to 17.1 in 2019, and for women at age 65, life expectancy was 13.2 years in 1935 and 19.7 in 2019. See Felicitie C. Bell and Michael L. Miller, "Life Tables for the United States: Social Security Area 1900–2100," Social Security Administration *Actuarial Study* No. 120, August 2005, Table 10, pp. 162–166, https://www.ssa.gov/oact/NOTES/pdf_studies/study120.pdf (accessed March 28, 2019).

average of 12.5 years, an overwhelming majority of today's workers live long enough to collect Social Security, and they receive it for an average of 18.5 years.¹⁴

Social Security's growth over time has transformed the program from a social safety net to the primary source of many individuals' retirement incomes. With current payroll taxes going immediately to current retirees' benefits, Social Security is not a forced savings program, but a generational transfer program. Although Social Security was supposed to prevent individuals from becoming dependent on means-tested welfare, it has instead caused a majority of older Americans to become dependent on universal welfare. The consequence of an excessive and pay-as-you-go Social Security program is that Americans have less money of their own to save and invest for retirement, leading to potentially lower economic output and incomes.¹⁵

Provisions of the Social Security 2100 Act

The Social Security 2100 Act would raise taxes and benefits for all workers and make the system solvent over the long run, but at a high cost. According to the Social Security Actuaries, Social Security's costs would rise from just under 14 percent of payroll today to almost 19 percent over the 75-year horizon. Thus, under the act, Social Security's costs would be roughly 33 percent higher in the long run.¹⁶ Key provisions of the Social Security 2100 Act include:¹⁷

- Nearly 20 percent tax increase across the board. Beginning in 2020, all workers' combined OASDI payroll tax rate—currently at 12.4 percent—would rise by 0.1 percentage points per year until reaching 14.8 percent in 2043. Once fully phased in, it would amount to an additional \$1,200 per year, or \$7,400 total, in Social Security taxes for any worker who earns \$50,000 per year.
- Taxable payroll cap replaced with a “doughnut hole” cap, bringing the top federal income and payroll tax rate to 55.6 percent. Currently, workers do not pay payroll taxes on earnings above \$132,900. This so-called tax cap was part of the original design of Social Security; instead of exempting workers with more than the equivalent of \$3,000 in annual income from the Social Security system entirely, as recommended by President Roosevelt's Committee on Economic Security (presumably on the basis that these workers could and would save enough on their own for retirement), the House Ways and Means Committee included all workers in the system but established a cap on taxable earnings of \$3,000 per year (the equivalent of about \$56,000 per year in 2019).¹⁸

Under the Social Security 2100 Act, all earnings above \$400,000 would be subject to the full payroll tax (currently 12.4 percent and rising to 14.8 percent) beginning in 2020. This would create a so-called doughnut hole tax cap with earnings between \$132,900 and \$400,000 that are not subject to the payroll tax cap. However, because the \$400,000 level is not indexed for inflation, the doughnut hole tax gap would narrow over time. This means that while only about 1.05 percent of workers would initially pay the additional tax on earnings over \$400,000, more and more workers would become subject to the added tax. By 2043, once fully implemented, 7.8 percent of workers would have earnings above the \$400,000 cap, and by the 75th year, nearly half of all workers—48 percent—would have earnings above the cap and subject to the additional payroll tax.

Workers who paid taxes on earnings above the \$400,000 cap would receive a nominal 2 percent increase in their benefits through the creation of another bend point in the Social Security formula.¹⁹ That upper bend point would be associated with a 2 percent factor, meaning that if an individual paid taxes on an average of \$100,000 worth of earnings above the cap throughout her lifetime, she would receive 2 percent more of her average annual earnings. (This compares to the current replacement factors of 90 percent, 32 percent, and 15 percent.)

14. Ibid.

15. Andrew Biggs, “Social Security and Private Savings—Causes and Effects,” American Enterprise Institute, September 17, 2009, www.aei.org/publication/social-security-and-private-savings-causes-and-effects/ (accessed April 6, 2019).

16. Social Security Administration, Office of the Chief Actuary, letter to the Honorable John Larson, Richard Blumenthal, and Chris Van Hollen, January 30, 2019, https://www.ssa.gov/OACT/solvency/LarsonBlumenthalVanHollen_20190130.pdf (accessed April 18, 2019).

17. Ibid.

18. Kevin Whitman and Dave Shoffner, “The Evolution of Social Security's Taxable Maximum,” Social Security Administration *Policy Brief* No. 2011-02, September 2011, <https://www.ssa.gov/policy/docs/policybriefs/pb2011-02.html> (accessed April 18, 2019).

19. Benefits are calculated based on a formula that considers workers' average indexed monthly earnings (AIME). For 2019, workers' benefits equal 90 percent of their earnings, up to \$926 per month plus 32 percent of monthly earnings between \$927 and \$5,583, plus 15 percent of earnings between \$5,584 and \$11,075. Under the proposal, workers with average monthly earnings above \$33,333 would receive an additional 2 percent of those earnings in their monthly benefit.

Combined with the federal income tax and Medicare tax, this would result in a top federal tax rate of 55.6 percent on earnings. In California, the state with the highest marginal income tax rate, the top rate would equal 68.9 percent.

- Expanded benefits for everyone. The act would increase benefits for all retirees who become newly eligible for benefits beginning in 2020 (or any time after the bill's enactment). Higher benefits would be provided to all retired workers, regardless of whether they paid higher payroll taxes for some, all, or none of their careers. Beginning in 2020, the current 90 percent replacement rate in the benefit calculation formula would increase to 93 percent, resulting in a roughly \$333 annual increase in Social Security benefits for most affected workers.
- New minimum benefit at 125 percent of federal poverty level. Workers who retire in 2020 or later would receive a significantly higher minimum benefit, equal to 125 percent of the federal poverty level in 2020 and increased by average wage growth thereafter (wages tend to grow faster than the inflation-indexed federal poverty level).
- Narrow and inaccurate inflation measure that over-inflates benefits. Social Security currently uses a narrow, outdated, and inaccurate inflation measure called the consumer price index for wage and clerical workers (CPI-W), which captures only a small portion of workers. It also overestimates inflation for many retirees who have paid off their mortgages and therefore have lower housing costs. More comprehensive and accurate inflation measures include the chained consumer price index (C-CPI) and the personal consumption expenditures index (PCE).²⁰ Instead of these more accurate measures, the Social Security 2100 Act would replace the current index with another narrow measure, the elderly consumer price index (CPI-E). The CPI-E is an experimental index aimed at tracking the expenses of the elderly,²¹ but because Social Security also provides disability and survivors' benefits, a significant portion of people who receive Social Security benefits—about three out of every 10—are under 65 years of age.²²

The SSA estimates that the CPI-E will exceed the current CPI-W by 0.2 percentage points per year.²³ This provision would be applicable to all Social Security recipients—including those already retired and receiving benefits—beginning in 2020. The benefit increases from this provision would continue to grow over time, amounting to a \$445 increase in average annual benefits in 2030 and a \$525 increase in 2040.

- Increased and merged thresholds for taxation of Social Security benefits. Currently, individuals with income between \$25,000 and \$34,000, and married couples with income between \$32,000 and \$44,000, pay federal income taxes on up to 50 percent of their Social Security benefits (these taxes go into the Social Security and Medicare Trust Funds); and individuals with total incomes over \$34,000, and couples with total incomes over \$44,000, pay federal income taxes on up to 85 percent of their Social Security benefits.²⁴ The Social Security 2100 Act would create just one threshold, at \$50,000 for individuals, and \$100,000 for couples, and tax up to 85 percent of Social Security benefits beyond those income levels. The new thresholds would not be indexed for inflation. Thus, while about 59 percent of Social Security beneficiaries would pay taxes on their benefits in 2020, this figure would grow to 63 percent in 2030 and to 68.5 percent in 2040.
- Merger of the Old Age and Survivors Insurance (OASI) and Disability Insurance (DI) Trust Funds. Currently, Social Security consists of two separate programs with two separate trust funds: OASI, which began in 1935; and DI, which began in 1956. When Congress added the DI program, lawmakers intentionally specified that the two trust funds were separate legal entities and could not encroach upon one another. (Nevertheless, lawmakers have

20. Romina Boccia and Rachel Greszler, "Social Security Benefits and the Impact of the Chained CPI," Heritage Foundation *Backgrounder* No. 2799, May 21, 2013, http://thf_media.s3.amazonaws.com/2013/pdf/bg2799.pdf.

21. Committee for a Responsible Federal Budget, "CBO Takes a Look at the CPI-E," April 22, 2013, <https://www.crfb.org/blogs/cbo-takes-look-cpi-e> (accessed April 29, 2019).

22. Social Security Administration, "Monthly Statistical Snapshot," March 2019, https://www.ssa.gov/policy/docs/quickfacts/stat_snapshot/ (accessed April 29, 2019).

23. Social Security Administration, Office of the Chief Actuary, letter to the Honorable John Larson, Richard Blumenthal, and Chris Van Hollen.

24. Social Security Administration, "Benefit Planner: Income Taxes and Your Social Security Benefit," <https://www.ssa.gov/planners/taxes.html> (accessed April 18, 2019).

shifted funds from one program to another multiple times throughout history.) This bill would combine the two trust funds, enabling the two programs to draw funding from the same source.

Impact on Individuals

Under the Social Security 2100 Act, all individuals would begin paying higher payroll taxes next year. Although the taxes would phase in slowly over time, they would nonetheless result in significant lifetime tax increases.

Table 1 demonstrates how much more in taxes younger workers (those born in 1998) of different income levels would pay over their lifetimes under the Social Security 2100 Act.²⁵

A low-income earner who has average indexed earnings²⁶ of \$23,353 over his career would pay \$42,546 more in taxes over his lifetime; a middle-income earner who has average indexed earnings of \$51,894 throughout her career would pay \$61,444 more in Social Security taxes; a high-income earner worker who has average indexed earnings of \$128,400 would pay \$162,010 more in taxes; and a very high-income earner making \$1,000,000 per year would pay \$804,321 more in taxes over her lifetime.²⁷

Benefits would also rise immediately and for all income levels under the Social Security 2100 Act. The biggest jump in benefits would come for roughly 43 percent of newly eligible workers who would have their benefits boosted to a new minimum initially equal to 125 percent of the poverty level. Under that formula, the minimum benefit for 2019 would equal \$1,301 per month.

Assuming workers live to the average life expectancy,²⁸ a low-income earner would receive \$63,748 more in benefits over his lifetime; a middle-income earner would receive \$89,085 more in Social Security benefits; a high-income worker would receive \$102,900 more; and a very high-income earner would receive \$171,315 more in Social Security benefits throughout her lifetime.²⁹

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25. These estimates are for individuals who were born in 1998, will begin working in 2020 at age 22, and retire at age 67 in 2065. While these individuals are subject to increasing tax rates, they do not pay the full 14.8 percent increased rate until 2043 when they are roughly halfway through their working careers.
 26. Average indexed earnings are what the Social Security Administration uses to calculate individuals benefits. This measure adjusts previous years' earnings levels to account for nationwide earnings growth over time. This measure is intended to provide a worker's average earnings level in current dollars in his year of retirement.
 27. The calculations for all three worker examples are for a young worker who was born in 1998, enters the labor force in 2020 at age 22, and works until full retirement age of 67 in 2065.
 28. For all four worker examples, we assume the overall life expectancy of 76.7 years, based on: Centers for Disease Control and Prevention, "United States Life Tables, 1998," *National Vital Statistics Reports*, Vol. 48, No. 18 February 7, 2001, Table 11, https://www.cdc.gov/nchs/data/nvsr/nvsr48/nvsr48_18.pdf (accessed April 25, 2019).
 29. As in the above example, averaged indexed lifetime earnings for these workers are: \$23,353 for the low-income earner, \$51,894 for the middle-income earner; \$128,400 for a high-income earner; and \$1,000,000 for a very high-income earner.

TABLE 1

Changes in Social Security Taxes Under the Social Security 2100 Act

FOR WORKERS BORN IN 1998 AND RETIRING IN 2065*

	Annual Earnings	Higher Taxes Under Social Security 2100 Act
Lower Income	\$23,353	\$42,546
Middle Income	\$51,894	\$61,444
High Income	\$128,400	\$162,010
Very High Income	\$1,000,000	\$804,321

* Calculations are based on workers born in 1998 who enter the labor force in 2020 at age 22 and work until full retirement age of 67 in 2065. This cohort of workers does not pay the full 14.8 percent Social Security tax rate until 2043. Thus, tax increases for workers born after 1998 would be higher than depicted here, and for those born before 1998, the tax increases would be lower.

SOURCE: Authors' calculations based on The Heritage Foundation Social Security Model and the specifications of the Social Security 2100 Act.

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Government “Savings” Versus Personal Savings

To the extent that the government chooses to provide welfare benefits, it has a role in reserving those benefits only for individuals who truly need them and cannot obtain them on their own. Part of federal policymakers’ rationale in establishing Social Security was to obligate individuals—through a mandatory payroll tax—to “save” for their future so that they would not become reliant on federal welfare benefits.

Social Security was initially limited—up until 1950, no worker paid more than \$30 per year into the system (the equivalent of between \$317 and \$524 in 2019 dollars), and average benefits were only about \$26 per month (\$275 in 2019 dollars)—roughly 25 percent of the poverty level. Once Congress began increasing the payroll tax rate, raising the taxable payroll cap, and increasing benefit levels across the board, the program veered further and further away from its targeted, anti-poverty goals.

Today, Social Security provides the highest benefits to the workers with the least need. While the average retired worker benefit is \$1,464 per month, Social Security provides more than that, \$3,147 per month, for workers with incomes over \$132,800—and less than 40 percent of that, or \$1,203 per month, to workers with average earnings of \$25,000.³⁰ This benefit structure is in stark contrast to the financial resources of individuals because higher-income earners have substantially greater non-Social Security resources than lower-income earners.

The highest-income earners do not depend on Social Security to stay out of poverty in old age, and providing them with \$37,764 per year in social safety net benefits is not a good use of taxpayers’ resources. Now that Social Security is paying out every dollar of payroll taxes that it collects—and more—as retirement benefits, the system can no longer be considered a contributory savings program. Instead, it functions as an income-transfer program from younger, working individuals to older, predominately retired individuals.

If the government is going to take money from workers’ paychecks to support retirees, those transfers should be limited to providing for basic necessities for the supported retirees—not paying for golf greens fees, cross-country trips, and gifts for grandchildren. Those are all great things that workers can look forward to doing in retirement, but they should come from private savings, not a federal safety net program. Policymakers should return Social Security to its goal of poverty prevention by gradually bringing benefit levels up for those with the greatest need, and significantly reducing benefits for others.

30. Social Security Administration, “Monthly Statistical Snapshot,” January 2019, https://www.ssa.gov/policy/docs/quickfacts/stat_snapshot/ (accessed March 15, 2019).

One of the biggest obstacles to doing that—reducing Social Security’s size and better targeting its benefits—is that workers expect a sizeable benefit after having paid so much in payroll taxes over their working careers. If Congress were to gradually return Social Security to its goal of poverty prevention, the program would not need to take such a large portion of workers’ paychecks. Workers and families would have a lot more money to save and invest on their own, in ways that meet their unique needs and that make them less dependent on the government during retirement.

TABLE 2

Workers Would Have More Money in Retirement from Personal Savings Than From a Bigger Social Security Program

FOR WORKERS BORN IN 1998 AND RETIRING IN 2065*

	Annual Earnings	Additional Benefits Under 2100 Act	Additional Savings Accumulated Without Higher Taxes	Added Retirement Income from Personal Savings vs. 2100 Act
Lower Income	\$23,353	\$63,748	\$78,526	+\$14,778
Middle Income	\$51,894	\$89,085	\$126,686	+\$37,601
High Income	\$128,400	\$102,900	\$202,211	+\$99,311
Very High Income	\$1,000,000	\$171,315	\$1,508,227	+\$1,336,912

* Calculations are based on workers born in 1998 who enter the labor force in 2020 at age 22 and work until full retirement age of 67 in 2065. This cohort of workers does not pay the full 14.8 percent Social Security tax rate until 2043. Thus, the additional savings accumulated without higher taxes, as well as the amount by which personal savings exceed additional Social Security benefits, would be larger for workers born after 1998, and smaller for those born before 1998.

SOURCE: Authors’ calculations based on The Heritage Foundation Social Security Model and the specifications of the Social Security 2100 Act.

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What Is Better—More Social Security or Less?

The question of whether Congress should reduce the overall size of Social Security or expand it should be straightforward: Does the program provide a higher return to workers and retirees than they could obtain investing their own money? It does not.

That is because payroll taxes that workers pay are not saved to fund their future benefits. Instead, they go directly to paying retirees’ benefits, meaning they have no opportunity to be invested and grow over time. Even in the past, when Social Security was collecting more in taxes than it paid out in benefits, the surpluses simply propped up other government spending with the only return on investment being the Treasury interest rate paid to the program by the same taxpayers who were paying payroll taxes. So, while Social Security can still be said to provide “guaranteed” benefits, it also guarantees subpar returns.

Our analysis shows that if a median-income worker who retires today had been able to invest his payroll taxes instead of having them taken from his paycheck to finance current benefits and other government spending, he could have purchased a private annuity that would provide at least \$25,000 more every year than the amount he receives from Social Security.³¹

The Social Security 2100 Act would exacerbate Social Security’s drag on workers’ incomes with \$15 trillion in additional taxes over the next 75 years. While higher taxes would be accompanied by higher benefits, workers of all income levels would be significantly better off with a smaller Social Security system that takes less of their paychecks and allows them to save on their own. That is because Social Security takes workers’ payroll taxes and immediately

31. Rachel Greszler, Kevin Dayaratna, and Patrick Tyrrell, “Is Social Security Worth Its Cost?” Heritage Foundation *Backgrounder* No. 3324, July 10, 2018, https://www.heritage.org/sites/default/files/2018-07/BG3324_0.pdf. Estimates based on a male earner who lives in Florida and was born in 1955.

sends them to current retirees, stripping workers of the chance to earn a positive return. A comparison of the additional Social Security benefits that workers would receive under the Social Security 2100 proposal versus what they would earn if they set those taxes aside in their own personal retirement accounts shows that all workers would be better off keeping their own money and saving it for retirement:

- A lower-income earner who makes \$23,353 per year could accumulate \$78,526 in a savings account of his own, in comparison to receiving \$63,748 more in Social Security benefits through higher taxes.
- A middle-income earner who makes \$51,894 per year could accumulate \$126,686 in a savings account of her own, in comparison to receiving \$89,085 more in Social Security benefits through higher taxes.
- A high-income earner who makes \$128,400 per year could accumulate \$202,211 in a savings account of his own, in comparison to receiving \$102,900 more in Social Security benefits through higher taxes.
- A very-high-income earner who makes \$1,000,000 per year could accumulate \$1,508,227 in a savings account of her own in comparison to receiving \$171,315 more in Social Security benefits through higher taxes.

4 Simple Changes to Preserve Social Security and Increase Incomes and Autonomy

TABLE 3

Recommended Reforms to Improve Social Security's Retirement Program

The following recommended reforms to OASI would collectively save \$681 billion over a 10-year period and cover 126 percent of the program's 75-year shortfall, as calculated by a dynamic model. Figures listed below represent the savings for each reform as a stand-alone proposal.

Proposal	Years 1-10 Savings (in billions)	% Reduction in 75-Year Actuarial Deficit ("Shortfall")
Increase retirement age and index to life expectancy	\$32	29.0%
Shift toward a flat, anti-poverty benefit	\$645	84.0%
Modernize the spousal benefit	\$2	3.0%
Use the chained CPI	\$12	11.0%

SOURCE: Authors' calculations based on data in the 2018 Social Security Trustees Report and using The Heritage Foundation Social Security Model.

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Social Security provides an important safety net for millions of older Americans. Yet, its shift to an income-replacement program threatens Social Security's core function of protecting older Americans from poverty. Rather than expand the program even further beyond its intended role—raising taxes on everyone and increasing benefits even for millionaires—policymakers should pare back Social Security's size and scope. By limiting Social Security benefits for wealthier individuals and updating the program's provisions, policymakers can preserve the program and actually increase benefits for Americans who need them most. Most importantly, this can happen without raising taxes on anyone.

Four relatively simple and commonsense reforms would make Social Security solvent for the long run and increase benefits and reduce poverty among lower-income Americans:

1. **Increasing the normal retirement age and indexing it to life expectancy.** When Social Security first began, life expectancy at birth in the U.S. was only 59 years for men and 63 years for women. That meant that the average worker would never receive Social Security benefits.³² Today, life expectancies have increased by 17 years while workers can now receive benefits three years earlier than before. Now, almost all workers receive Social Security, and they receive benefits for an average of nearly two decades. Policymakers should gradually increase Social Security's normal retirement age to 70 and then automatically adjust it to reflect increases in life expectancy and work capacity.³³

This would save \$32 billion over 10 years and reduce Social Security's 75-year shortfall by 29 percent.

2. **Gradually shifting to a flat, anti-poverty benefit.** Social Security is supposed to be a safety net program, not an income-replacement program. Yet, millions of workers receive benefits that fail to keep them above the poverty level. To better align Social Security's resources with individuals' needs, policymakers should gradually reduce benefits for higher-income earners and increase them for lower-income earners, eventually resulting in the same level of Social Security benefit for all retired workers.³⁴

This would save \$645 billion over 10 years and reduce Social Security's 75-year shortfall by 84 percent.

3. **Applying the more accurate chained consumer price index (C-CPI).** Annual increases in Social Security benefits—so-called cost-of-living adjustments—are based on a partial inflation measure that only covers 30 percent of the economy and fails to reflect how consumers respond to changing prices. Policymakers should use the more accurate C-CPI.

This would save \$12 billion over 10 years and reduce Social Security's 75-year shortfall by 11 percent.

4. **Modernizing the spousal benefit.** When Social Security first began, only 25 percent of women participated in the labor force.³⁵ Today, women represent nearly half—47 percent—of all workers in the U.S.³⁶ That means that most workers today earn Social Security benefits based on their own work history. Moreover, the spousal benefit accrues disproportionately to women from higher-income households, making Social Security less progressive.³⁷ Policymakers should therefore eliminate the spousal benefit. It should be noted that if policymakers were to implement a flat, anti-poverty benefit, it would, in effect, eliminate the need for a spousal benefit because most individuals who currently receive spousal benefits would actually receive a larger flat benefit, equal to that of their spouse.

This would save \$2 billion over 10 years and reduce Social Security's 75-year shortfall by 3 percent.

32. Bell and Miller, "Life Tables for the United States: Social Security Area 1900–2100," Table 10.

33. This proposal would not affect anyone age 57 or older. For others, it would increase the normal retirement age by 2 months per year, until reaching age 70, and would then index the age based on changes in life expectancy.

34. Our proposed shift to a flat, anti-poverty benefit would not affect workers who are 60 years or older in 2019. We suggest gradually reducing the replacement rates in Social Security's AIME by 0.5 percentage points per year on the 32 percent and 15 percent replacement rates, and increasing the lower, 90 percent, replacement rate by 1 percent per year until it reaches 112 percent. Full implementation would not be realized until 2058, when workers who are 28 in 2019 would reach Social Security's current normal retirement age of 67.

35. Claudia Olivetti, "The Female Labor Force and Long-run Development: The American Experience in Comparative Perspective," Boston University and National Bureau of Economic Research, November 2013, https://www.bu.edu/econ/files/2012/11/olivetti_chapter_November2013_complete.pdf (accessed April 25, 2019).

36. Bureau of Labor Statistics, "Labor Force Statistics from the Current Population Survey," Table 11. Employed persons by detailed occupation, sex, race, and Hispanic or Latino ethnicity, <https://www.bls.gov/cps/cpsaat11.htm> (accessed April 25, 2019).

37. Alan L. Gustman, Thomas L. Steinmeier, and Nahid Tabatabai, "The Effects of Changes in Women's Labor Market Attachment on Redistribution Under the Social Security Benefit Formula," National Bureau of Economic Research, September 2011, <https://www.nber.org/papers/w17439.pdf> (accessed April 29, 2019).

Permanent Solvency and Paving the Way for a Payroll Tax Cut. Using the Heritage Foundation's Social Security model, we estimate that these four changes would reduce the program's 75-year shortfall by 126 percent and pave the way for a roughly 15 percent reduction in Social Security's payroll tax rate, from 10.6 percent to 9.1 percent. In conjunction with our recommended reforms to Social Security's Disability Insurance program, we estimate that the current 12.4 percent payroll tax rate could decline to 10.1 percent, leaving workers with more money to save or spend based on their own needs.

Conclusion

Social Security requires immediate reform, and every year in which Congress fails to confront the program's undeniable shortfalls creates additional costs—higher taxes or larger benefit reductions—for future workers and retirees. While there is no way to undo Social Security's past excesses, there is a way to curb the program's excessive growth and return it to its original purpose of protecting seniors from living in poverty by providing a stable source of income.

A widely supported proposal—the Social Security 2100 Act—would significantly increase the program's taxes on everyone, raising them enough to both make the program solvent and also increase benefits for all current and future retirees. The consequences of this proposal would outweigh its benefits, however, as workers of all income levels would pay significantly more in taxes and lose out on the opportunity to receive higher incomes in retirement through their own savings. Once fully phased in, the Social Security 2100 Act would result in a worker who makes \$50,000 having to pay an extra \$1,200 per year in payroll taxes. Moreover, this proposal would unnecessarily increase benefits for wealthy individuals: A millionaire would receive about \$171,000 more in lifetime benefits compared to about \$64,000 in additional benefits for a low-income earner.

- Instead of addressing Social Security's shortfalls by making the program bigger, policymakers should focus Social Security on individuals who need it most and modernize the program to account for changes in the workforce. Social Security does not need to take more from workers' paychecks, and doing so accomplishes the opposite of Social Security's intent; instead of making workers more financially secure, extracting more in payroll taxes strips workers of the opportunity to maximize their incomes and better meet their unique life choices. By gradually shifting to a flat, anti-poverty benefit for all workers, increasing the eligibility age and indexing it for changes in life expectancy, adopting a more accurate inflation index, and modernizing the spousal benefit, Congress could make Social Security solvent for the foreseeable future and actually reduce Social Security's payroll tax rate by about 15 percent.

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